

Indian Markets	CMP	% chg 1d	% chg 3m	% chg 6m	% chg ytd
Nifty	10,017	0.3	2.4	8.4	22.4
Sensex	31,924	0.2	0.6	7.2	19.9
BSE Small Cap	16,893	1.0	6.9	13.2	40.2
Midcap	15,936	0.6	6.8	10.8	32.5
INR/USD	65.29	0.1	1.2	1.1	4.0
Developed/Emerging markets					
Dow Jones	22,831	0.3	6.6	10.6	15.5
S&P 500	2,551	0.2	5.2	8.4	13.9
Nasdaq	6,064	0.1	6.2	12.3	24.7
Nikkei	20,845	0.1	3.2	11.2	9.1
Hang Seng	28,540	0.2	10.3	18.5	29.7
Bovespa	76,897	1.5	20.5	19.5	27.7
DAX	12,949	(0.2)	4.1	6.7	12.8
FTSE	7,538	0.4	2.8	2.3	5.5
SGX Nifty	10,070	0.3	2.8	8.6	23.0

Top gainers			Top losers		
Underlying Security	CMP	% chg	Underlying security	CMP	% chg
Biocon	369	7.2	PC Jewel.	364	(4.4)
Suzlon	16	6.9	Welspun	68	(3.5)
Havells	533	5.2	Indian Hotels	105	(2.3)
Hexaware	279	4.9	Oberoi	419	(2.0)
Videocon Ind.	17	4.8	Relcapital	556	(1.9)

Recent eco. data	Actual	Cons.	Upcoming eco. data	Cons.	Previous
UK Services PMI	53.6	53.2	US CPI	0.6	0.4
India GDP	5.7	6.5	Japan M2 Money Stock	4.0	4.0
US Factory Orders	1.2	1.0	UK Retail Sales	1.5	(0.2)
US Unemploy Rate	4.2	4.4	Germany Final CPI	0.1	0.1
Canada Employ Change	10.0K	13.9K	US PPI	0.4	0.2

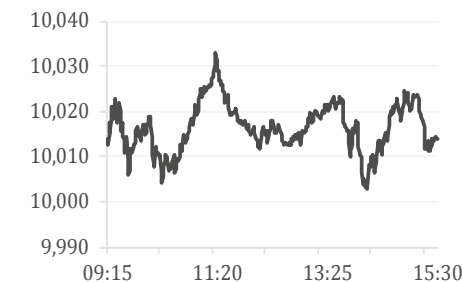
FIIs & DIIs cash activity (Rs cr)			
	Previous day	MTD	YTD
FII Equity	(505)	(3,021)	33,509
DII Equity	402	3,611	89,955
FII Debt	(281)	7,768	137,283
DII Debt	(809)	11,576	307,829

Mega IPO in focus!

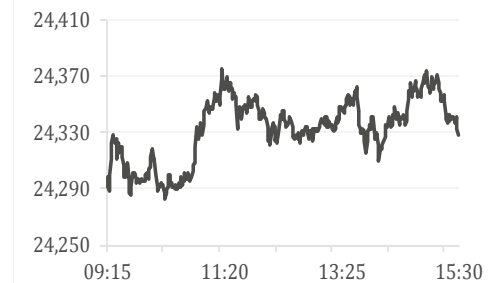
Not to be absolutely certain is, I think, one of the essential things in rationality - Bertrand Russell

The primary market could well set a record of sorts as far as money raised through IPOs for this year is concerned. The focus for the day will be the Rs 11,370-crore IPO of General Insurance Corp of India. The Rs 460-crore IPO of MAS Financial was subscribed 128.22 times on Tuesday. Ahead of the results season, the market has managed to float in the green. The outlook is a positive start. Global cues are quite healthy for now. Minutes from the most recent Federal Reserve meeting are expected today. The Economic Advisory Council to the Prime Minister is scheduled to meet today to discuss the Indian economy. The fall in GDP, the lowering of growth forecast by the International Monetary Fund are areas of concern.

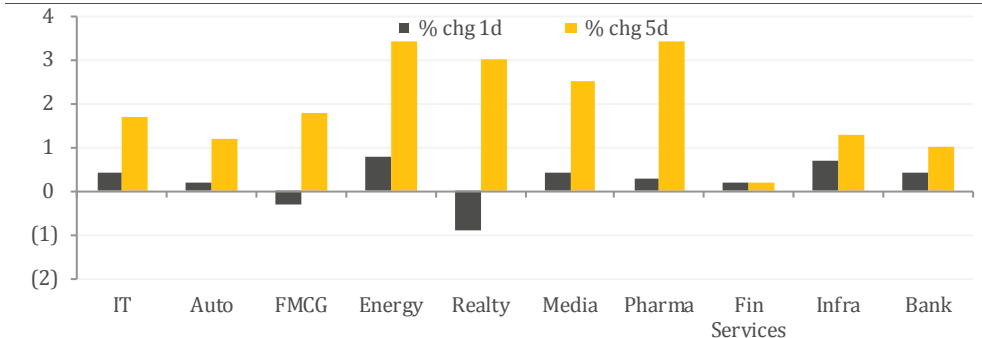
Nifty intra-day movement



Banknifty intra-day movement



Sectoral movement



Corporate News

- **Coal India** signs pact for National Coal Wage. The wage agreement may have average Rs 5,667 crore per year impact
- **Dena Bank** QIP opened at a floor price of Rs 30.73 per share.
- **Karur Vysya Bank** rights issue to open from October 25 to November 10
- **Sical Logistics** approves buying MMTC's 26 percent stake in unit Sical Iron Ore
- **DCW** Commences commercial production of Chlorinated Poly Vinyl Chloride (CPVC) at its units in Tamil Nadu
- **CRISIL** has withdrawn its application to enter peer-to-peer lending business
- **Repro India** issued 5.92 lakh shares at Rs. 675 each on preferential basis to Malabar India Fund, Malabar Value Fund and Kedia Securities
- **Dixon Technologies** entered into Design, Manufacturing and supply agreement with Flipkart India
- **PSP Projects** bags order worth Rs. 1575cr from Surat Diamond bourses
- **Bodal Chemicals:** Rs 225 crore QIP Opens, price range of Rs 172-174 per share as per term sheet
- SBI-led consortium of lenders orders forensic audit of **Punj Lloyd** accounts

Economy News

- GST transition fairly smooth for states despite attempts to derail it says Arun Jaitley
- India's pharma exports declined by 4% till August on pricing pressure
- Government will study ways to provide better prices to domestic oilseeds says Nitin Gadkari

Upcoming Events

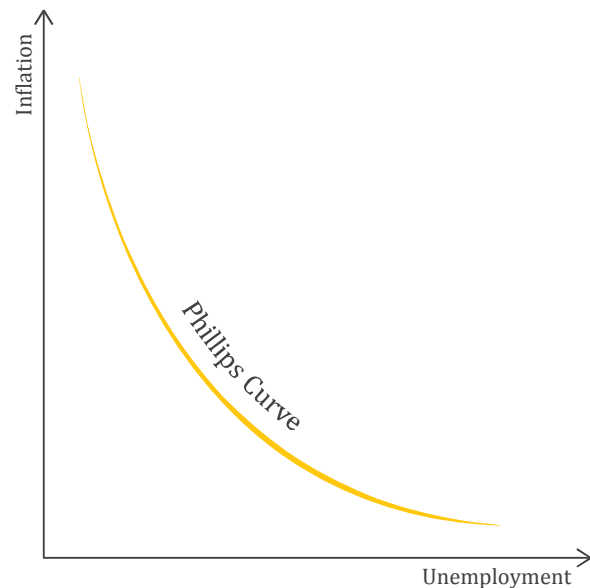
- Oct 11: Australia Westpac Consumer Sentiment, Japan Core Machinery Orders, Japan Prelim Machine Tool Orders, US FOMC Meeting Minutes.
- Oct 12: India IIP, India CPI, Japan Bank Lending, Japan PPI, Canada NHPI, US PPI, US Unemployment Claims, US Natural Gas Storage.
- Oct 13: Japan M2 Money Stock, US CPI, US Retail Sales, US Prelim UoM Consumer Sentiment.

When the Phillips Curve turns Topsy-turvy

Low inflation juxtaposes rise in job growth

Had William Philips been alive today, he would have either quit his job or renounced his best-known contribution to Economics, the single-equation empirical model named after him, in sheer exasperation. Reason: his economic theory (or the Philips curve) of an inverse relationship between unemployment and wage/inflation growth has miserably failed during the past few years. In fact, way back in the 50s, noted proponent of free markets Milton Friedman claimed Philip curve was relevant only in the short run. In the long run, he professed, higher unemployment and higher inflation could co-exist. He was proved right in predicting a US stagflation during the 70s.

Figure 1: Phillips Curve losing relevance



Source: IIFL Research.

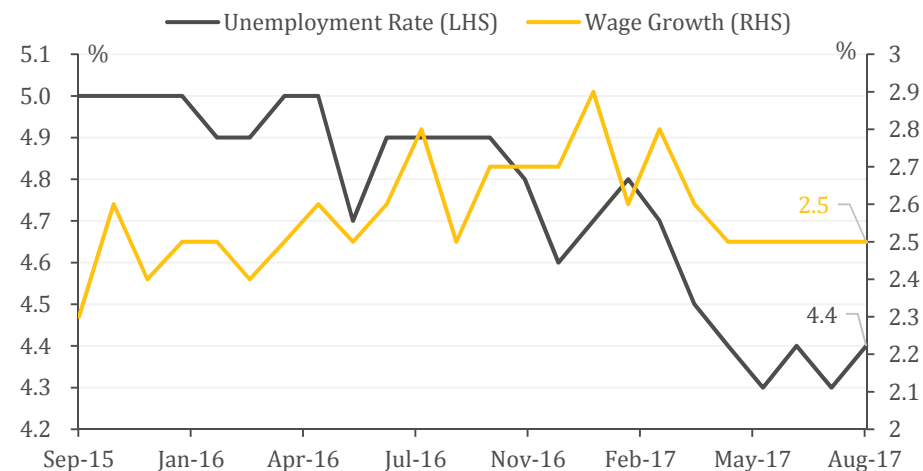
Analyst: Hitesh Jain



Low wages and inflation: All-pervasive woes

Although we see well-developed labour markets across the developed world, prolonged stagnancy in wage and inflation yet continues to bewilder economists. In the past, central banks targeted a particular unemployment level before embarking on the path of policy normalization. Fed achieved the 6% unemployment level target in September 2014, but failed to muster courage to move on with the rates until December 2016. In the last 24 months, wage growth in US has grown by 2.6% despite the 182,000 jobs created during the period and unemployment rate dipping to 4.4% from the peak of 10% in 2010. Needless to say, inflation has stubbornly stayed below Fed's target of 2%.

Figure 2: Although official unemployment levels in US have dipped, wage growth remains dismal



Source: Bloomberg, IIFL Research

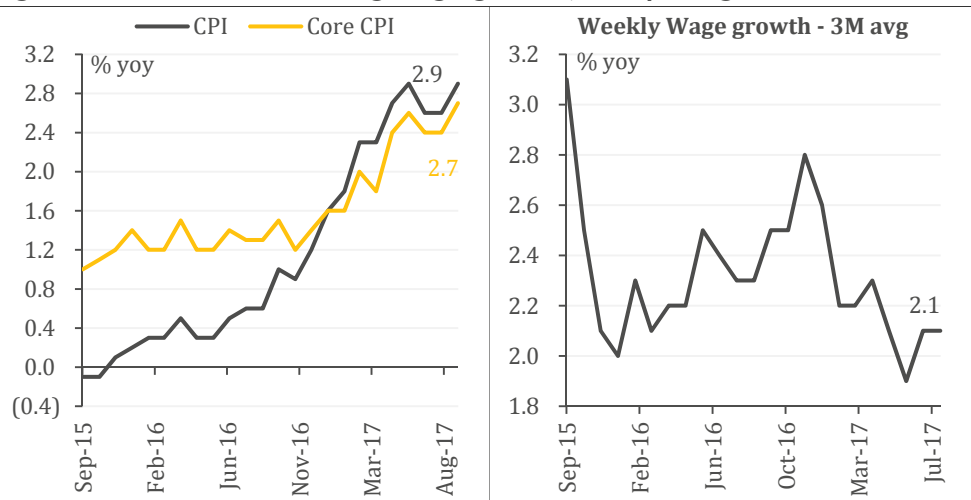
Similarly, BoE governor set a threshold unemployment rate at 7% for normalizing the monetary policy, but as we know, it has failed to move in that direction despite unemployment levels at a four-decade low. In fact, BoE trimmed interest rates in August last year to counter the repercussions of Brexit plebiscite. Problem of low wage growth remains ubiquitous and BOE has lowered forecasts for 2018 and 2019 as well. Although inflation has soared and sustained above BOE's target rate since February this year, this is more due to uncertainty over Brexit and ensuing weakness in Pound rather than improvement in aggregate demand. With wage growth lagging inflation, the economy runs a high risk of deterioration in household real incomes. It seems BoE can't afford to kick the can down the road anymore, with a rate hike expected in next few months.

Europe is another enigma, with disconnect evident between buoyant PMI/business indicators and depressed inflation reading. The economy is in the same boat as far the trend in labour markets is concerned. Wage growth stands in contrast with mitigating unemployment levels. This probably hints at the part-time nature of most jobs and sufficient lag in labour markets. Another problem in the region are the overtly rigid labour laws. In Japan, ultra loose monetary policy has barely led to any growth in wages and inflation. However, this has more to do with weakening demographic profile rather than fiscal or monetary policy.

Is Globalization the real culprit?

It seems there's a more profound reason behind the malaise of sluggish wage growth. Various studies attribute lower labour productivity as one of the reasons why companies are not paying higher wages to their employees. For instance, non-farm productivity in US has barely grown by an average 0.6% (yoy) since 2011, when compared with rate of 3% in 2010. Meanwhile, protectionists cite lower wage a scourge of Globalization. Integrated economies and global value chains facilitate free or rather easy movement of labour, capital, goods and services, which is argued to have debilitated the bargaining power of the proletariat. To be fair, unbelievable scale of economies particularly in Chinese manufacturing have indeed exported deflation across the globe. No wonder, China is caught in the crosshairs because of its widening trade surplus with US and President Trump contemplating at punitive tariffs or anti-dumping duties to counter unfair trade practices. The prevalent political narrative in US is about indigenous production and boosting exports, however, major American export products comprise imported components. It is simply unfathomable to us how President Trump will wean the world's largest economy away from Chinese and Mexican imports, where the consumer has largely benefitted from cheaper cost of goods and services.

Figure 3: Inflation exceeding wage growth, hampering real incomes



Source: Bloomberg, IIFL Research

Advent of artificial intelligence and other technological advancements are certainly superseding human workforce and the impact is just not only ring-fenced to manufacturing. It is now projected to eventually take its toll on the so-perceived “intellectual/intelligent” jobs of the financial markets. Erstwhile chief executive of Citigroup Vikram Pundit guesstimates that literally one-third of the jobs in the banking industry will be lost in next five years. Machine learning can render a vast quantum of workforce redundant.

Adamant Central Banks

Nevertheless, central banks don't seem too perturbed about Phillips curve, with US Fed sticking to further rate hikes despite subdued inflation and low wage growth. Similarly, ECB is poised to taper the asset purchase program despite being unable to move the needle on pricing pressures. On inflation expectations in Europe, recent issue of centenary sovereign bond by Austrian government is a serious predicament, where a 100 year bond fetches a yield of 2.1%, just 50-60bps higher than 30 year bond. Central banks seem to believe that transient factors have made the situation off kilter and equilibrium will normalize as effects of tightening labour markets permeate through the economy. Many experts think otherwise, like President, Fed Reserve Bank of Minneapolis Neel Kashkari who claims Fed's departure from monetary accommodation is responsible for lower inflationary expectations, not the transient factors. He suggests Fed should delay further rate hikes unless inflation goal of 2% is achieved and that inflation trajectory is primarily driven by interest rate expectations. If interest rates rise in future, they can dampen consumption and effectively wage/inflation growth.

Economic acumen tells us monetary policy need not cater to temporary disruption, however if the problem is structural, a greater emphasis is must. Only time will tell whether central banks were right about their assessment of low wages and inflation being temporary phenomena. But there's a good chance they could be proved wrong, as more often than not, people die of the cure, not the ailment. The central bank solution to the

2008-09 financial crisis - where ultra-cheap interest rates and gigantic bond buying programmes failed to yield desired results - bears testimony.

Even though Nifty failed to replicate last Friday's fantastic momentum, it managed to edge past the coveted 10,000 mark in the third consecutive day of advance. In the process, it has clocked seven positive closures in the last eight sessions. Post a gap up opening, Nifty traded between the narrow trading band of 32 points; thereby forming another narrow range pattern implying lack of thrust in the recent advance.

A 0.4% advance in BankNifty may not mean much, but it does imply continuity. Monday's break above the recent consolidation managed to eke out more gains on a day when benchmark Nifty lacked upside momentum. Ratio chart of BankNifty/Nifty index shows a reversal from PRZ of ABCD pattern, hence supply point of 24,400 must be overcome to keep the impetus going.

Fund action

- Steadview Capital Mauritius sold 0.63mn shares of STAR at Rs861

Leaders

Company	CMP (Rs)	52-wk high	Deviation %
Bharat Forge	654	656	(0.2)
Havells	533	534	(0.3)
TVS Motor	686	690	(0.5)
Mother Sumi	347	349	(0.7)
SKS Micro	981	990	(0.9)

Laggards

Company	CMP (Rs)	52-wk Low	Deviation %
Crisil	1,783	1,769	(0.8)
Amara Raj.	691	683	(1.2)
RCOM	17	16	(3.8)
Castrol	368	351	(4.5)
BOB	142	135	(4.8)

* Based on deviation from 52-week high/low

Proximity to 20-DMA

Company	CMP (Rs)	20-DMA	Deviation %
Natco Ph	991	837	18.4
Prestige Est	300	271	10.7
Jubilant Food.	1,526	1,412	8.1
Coal India	286	265	7.9
Biocon	369	347	6.3

Proximity to 50-DMA

Company	CMP (Rs)	50-DMA	Deviation %
Natco Ph	991	809	22.5
OIL	353	309	14.2
Bata	779	683	14.1
Coal India	286	253	13.0
Ashok Ley	126	112	12.5

* Based on deviation from moving averages

High delivery stocks

Company	% Delivery	CMP (Rs)	% chg
HDFC Bk	100.0	1,803	0.4
Indian Hotels	92.0	105	(2.3)
Torrent Ph	90.0	1,270	1.1
Alembic Ph.	86.0	501	(0.2)
Oberoi	82.0	419	(2.0)

Low delivery stocks

Company	% Delivery	CMP (Rs)	% chg
Just Dial	8.0	413	(0.1)
Dlf	9.0	172	(0.6)
Sun Tv	11.0	818	3.0
Hexaware	12.0	279	4.9
Adani Power	13.0	30	(0.5)

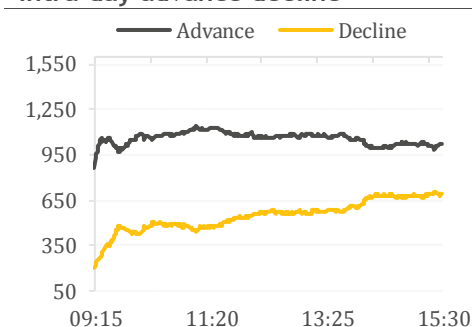
Spurt in volumes

Company (mn)	Day's Vol.	2-week Avg. Vol	10-DMA	CMP (Rs)	% chg
Suzlon	79	40	16	16	6.9
ICICI Bank	19	16	275	270	(0.7)
IDFC	16	14	60	64	(0.6)
JSW Energy	18	13	75	79	4.5
Petronet	6	4	235	246	1.9

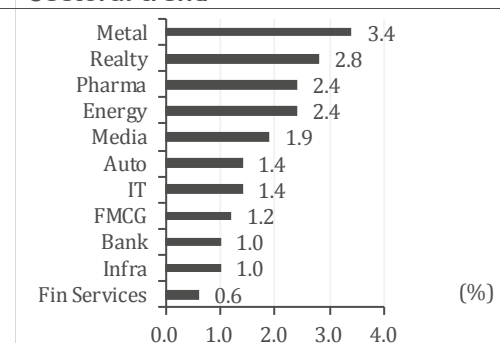
Index Pivot

Index	Last close	Support	Pivot	Resistance
Nifty	10,017	10,002	10,018	10,034
Sensex	31,924	31,883	31,939	31,981
Nifty Bank	24,347	24,288	24,334	24,394
Nifty IT	10,726	10,702	10,737	10,762

Intra-day advance decline



Sectoral trend



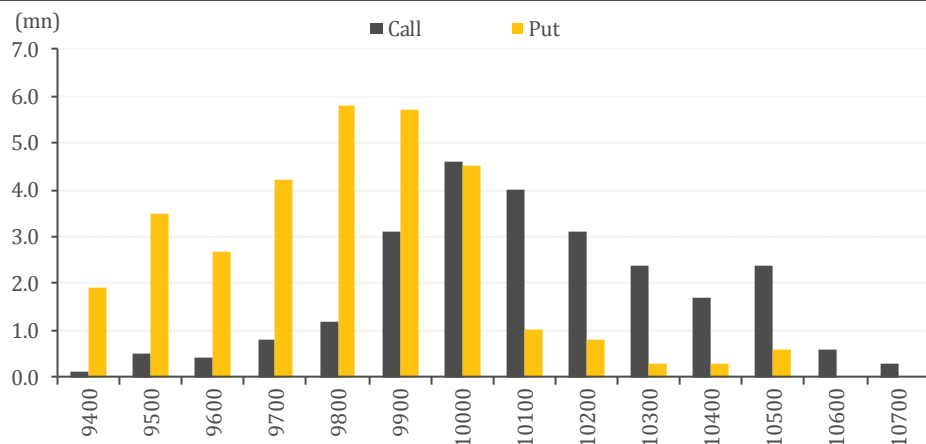
* Calculations based on 10-DMA

Index snapshot

	Futures	% Chg	Spot	Basis	Next Month	OI in shs	OI % Chg	PCR OI	PCR Vol	ATM IV's	Rollovers	Max call build-up	Max put build-up
Nifty	10,036	0.2	10,017	19.00	10,067	323,084	2.4	1.40	1.10	10.0	5.2%	10,000	9,800
Bank Nifty	24,374	0.3	24,347	27.00	24,445	54,847	1.4	1.30	1.02	12.1	3.4%	25,000	24,500

- Strength continues for Nifty as solid global cues along with supportive statistics data points pushing markets higher. SGX Nifty indicates another higher opening.
- Nifty sustaining above 10k mark for last 3 days still we have not seen any significant shed in open interest on 10000 strike. OTM puts continue to attract writing as traders betting for buoyant markets ahead of earning seasons.
- FII's index futures long/short ratio at 1.31x vs 1.37x with mild unwinding seen on net index long futures positions.

Nifty open interest distribution



Securities in ban period: Bembl, Ibrealest, Jpassociat, Dhfl, Jswenergy, Rcom, Relcapital

Futures open interest gainers

Scrip	OI (lacs)	% OI Chg	CMP (Rs)	% Chg	Action
Hexaware	27	29.7	280	4.9	Long Build up
Havells	42	26.5	535	5.1	Long Build up
STAR	38	25.2	890	4.5	Long Build up
Gmrinfra	6	14.6	912	(0.1)	Short Build up
INFY	461	13.2	937	1.2	Long Build up
Tvsmotor	63	7.7	684	1.2	Long Build up
IGL	13	6.7	1,495	3.2	Long Build up

Futures open interest losers

Scrip	OI (lacs)	% OI Chg	CMP (Rs)	% Chg	Action
Relcapital	124	(9.1)	558	(2.1)	Long Unwinding
Siemens	10	(5.1)	1,244	1.7	Short Covering
Powergrid	221	(4.9)	205	1.5	Short Covering
Arvind	65	(4.4)	393	2.6	Short Covering
ACC	19	(3.3)	1,739	0.1	Short Covering
Enginersin	125	(3.1)	150	0.7	Short Covering
Apollohosp	14	(2.9)	1,090	3.4	Short Covering

FIIs derivative activity

Trading turnover	Index Fut*	Stock Fut*	Index Calls*	Index Puts*
FIIs	(4,413)	6,351	2,086	408
DIIs	(69)	(1,554)	0	0
Prop	(3,506)	706	4,879	(18,729)
HNI Clients	7,988	(5,503)	(6,965)	18,321

* No of contracts

Commodities

Gold prices extended recovery towards US\$1,290/oz mark, helped by slight retracement in US dollar against basket of currencies. Investors also derived cues from deterioration in US-Turkey diplomatic relations. Nevertheless, we reiterate that upside in yellow metal remains confined given the policy normalisation narrative on both sides of the Atlantic and ensuing rising sovereign bond yields.

LME Copper surged to one month high after Congo government ordered a joint venture of Chinese investors to stop exporting raw copper and cobalt from its mines because of their low value in international markets. Mining ministry stated that exports of raw ore is not yielding decent returns on investment, effectively hampering the country's ability to pay back Chinese credit. Congo seems to be replicating the policy of Philippines and Indonesia and it needs to be seen how the situation pans out on this front.

Oil futures rebounded from the lows, as Saudi Arabia trimmed crude allocations for November by 560,000bpd, while Iraq is reported to be now abiding by its OPEC production target. Meanwhile, OPEC Secretary-General stated that fresh consultations were now underway for an extension of the agreement beyond March of 2018.

FX

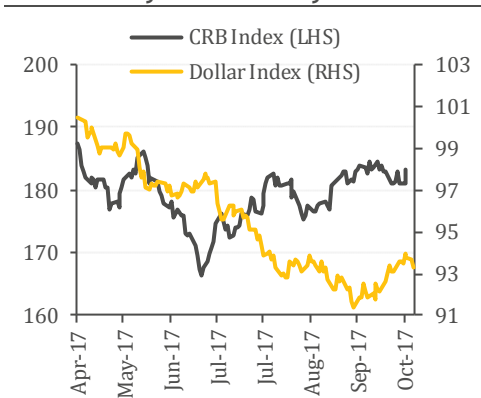
Euro reclaimed 1.18 mark against the greenback after concerns over Catalonia's secession from Spain eased. In a speech to regional Parliament, Catalan President stated that although provincial government respects the results of recent referendum, it would not yet declare independence, giving a chance to deliberation with Spanish Government. **Pound** traded on a firm note, as expectations calls for a rate hike by BOE next month to counter surging inflation. Meanwhile, **Mexican Peso** and **Loonie** derived cues from ongoing NAFTA negotiations where US representatives remain firm on higher domestic origin content than it is currently embodied in the existing agreement.

Commodities (US\$ terms)	Last Price	% chg 1d	% chg ytd
Gold (troy oz)	1,289	0.1	12.3
Silver (troy oz)	17.1	0.1	7.6
Copper (MT)	6,739	(0.3)	21.7
Aluminium (MT)	2,157	(0.3)	27.4
Zinc (MT)	3,273	(0.2)	27.0
Lead (MT)	2,540	(0.7)	26.0
Nickel (MT)	10,990	(0.6)	9.7
WTI Crude (bbl)	51.1	0.3	(5.0)
Br. Crude (bbl)	56.7	0.1	(0.2)
NG (mmBtu)	2.90	0.0	(22.4)

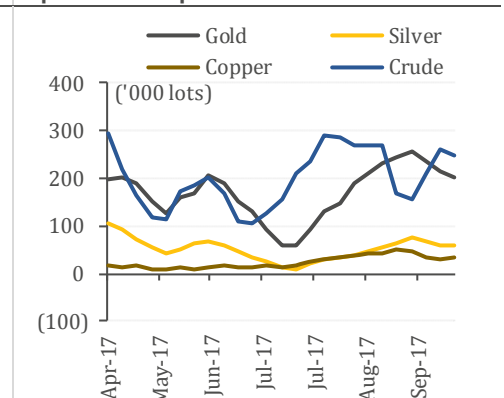
Currencies	Last price	% chg 1d	% chg ytd
USD/INR	65.30	0.0	4.0
EUR/INR	76.90	0.0	(6.8)
GBP/INR	86.10	0.0	(3.0)
JPY/INR	0.58	(0.1)	0.1
EUR/USD	1.18	0.0	12.3
GBP/USD	1.32	0.0	7.0
USD/JPY	112.40	0.0	4.0
USD/CNY	6.58	0.0	5.6
USD/Real	3.18	0.0	2.4
USD Index	93.20	0.0	(8.8)

Commodity Dynamics	Latest	Week ago	1m ago	6m ago	1yr ago
SPDR Gold ETF (tonnes)	858	854	835	838	959
iShares Silver ETF (mn oz)	327	327	327	328	361
LME Cu Stocks ('000 MT)	290	302	213	267	351
LME Al Stocks ('000 MT)	1,239	1,255	1,322	1,803	2,120
LME Zn Stocks ('000 MT)	261	252	242	367	457
LME Pb Stocks ('000 MT)	155	157	164	172	191
LME Ni Stocks ('000 MT)	384	383	385	375	361
US Crude stocks (mn bbl)	465	471	458	534	472
US Oil Rig Count	748	750	759	662	425

Commodity v/s Currency



Speculative positions on CME



Asset Allocation

Model Portfolios	Conservative (%)		Balanced (%)		Aggressive (%)	
	SAA	TAA	SAA	TAA	SAA	TAA
Asset Allocations	SAA	TAA	SAA	TAA	SAA	TAA
Equity	14	14	49	49	76	76
Fixed Income	76	76	40	46	8	20
Real Estate	0	0	5	0	10	0
Alternatives	5	0	5	0	5	0
Liquid Assets	5	10	1	5	1	4
Total	100	100	100	100	100	100

SAA – Strategic Asset Allocation; TAA – Tactical Asset Allocation

Source: IIFL Research

Strategic and Tactical Asset Allocations across Model Portfolios

Strategic Asset Allocation (SAA) is the long term asset allocation strategy for a client that is arrived at on the basis of risk assessment and investment objectives. There are five model portfolios that have asset allocations to suit different risk profiles. The model portfolios have been optimized using historical risk and returns across asset classes. Every month the IIFLW investment Committee formalizes monthly tactical views on the markets and their impact on various asset classes.

Tactical views on each asset are with a one year time horizon and Tactical Asset Allocation (TAA) is a +/- 5%-10% change to a Client's broader Strategic Asset Allocation.

Asset Class View

Asset Class	Tactical View
Fixed Income	Neutral
Equity	Overweight
Real Estate	Neutral
US Dollar	Neutral
Gold	Underweight
Liquid Assets	Underweight

Sector View for listed equities

Sector	Weight
Agriculture	Overweight
Automobile	Neutral
Capital Goods - BTG	Underweight
Capital Goods – T&D	Overweight
Cement	Underweight
Consumer Discretionary	Overweight
Housing finance	Overweight
MFI's	Neutral
Private Bank	Overweight
PSU Bank	Neutral
FMCG	Neutral
Infrastructure	Overweight
IT	Underweight
Metals & Mining	Neutral
Oil & Gas E&P	Neutral
Oil Marketing	Neutral
Gas Utilities	Neutral
Pharma	Underweight
Telecom	Underweight
Power Utilities	Neutral

IIFL Wealth Research bags 2 Best Analyst Awards

IIFL Wealth Research has bagged two prestigious awards at the *Zee Business Market Excellence Awards 2016*.

Prayesh Jain was conferred the Best Analyst Award for Auto sector and **Bhavesh Gandhi** bagged the Best Analyst Award for Pharma sector.

Besides the twin awards, IIFL Wealth Research was also nominated in the categories of Oil/Gas, Banking and Industrials.

IIFL Wealth Research, as you know, has always prided itself on its unique value proposition in a swarming market space of cut-throat competition, among other things, on our wealth of actionable ideas, tailored portfolio approach and thorough research in line with client needs and priorities, distinctive practice of following up with Call Success post recommendations and a vast coverage universe of as many as 300 companies (comprising 70% of India's equity mcap).

In the past, the research team has won Zee Biz Awards under different categories; Bloomberg has rated our research as the most accurate, while we have twice been winners of Business Standard Smart Portfolios, having received awards at the hands of luminaries including President Pranab Mukherjee, Prime Minister Narendra Modi and Minister of State Piyush Goyal.

Recommendation parameters for fundamental reports:

Buy = >15%+

Accumulate = 5% to 15%

Reduce = -10% to 5%

Sell = >-10%

ABOUT IIFL Wealth Management Limited

IIFL Wealth Management Limited (hereinafter referred as IIFLW), a Company incorporated under Companies Act, 1956, is registered with SEBI as Portfolio Manager and as a Stock Broker. IIFLW is also registered with AMFI as a distributor of mutual funds. IIFLW provides wealth management services to various HNI / Ultra HNI clients and inter alia distributes various securities and financial products, including mutual funds, alternative investment funds, debentures and structured products. IIFLW has made necessary application for registering itself as a Depository Participant.

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